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FILE

DEO EXHIBIT 1

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Application of the East Ohio Gas Company d/b/a Dominion East Ohio to Adjust its Pipeline Infrastructure Replacement Program Cost Recovery Charge and Related Matters.	**Case No. 09-458-GA-UNC**

DIRECT TESTIMONY OF
VICKI H. FRISCIC
ON BEHALF OF
DOMINION EAST OHIO

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I. INTRODUCTION

Q1. Please state your name, occupation and business address.

A1. My name is Vicki H. Friscic. I am employed by The East Ohio Gas Company, d/b/a Dominion East Ohio ("DEO"), as Director Regulatory & Pricing. My business address is 1201 East 55th Street, Cleveland, Ohio 44103-1028.

Q2. Please describe your educational background and work experience.

A2. I graduated from Ohio University in 1980 with a Bachelor of Business Administration degree. In 1980, I joined the accounting firm Price Waterhouse as an auditor, became a licensed CPA in 1982 and was promoted to Audit Manager in 1986. From 1987 to 1989, I worked for Progressive Insurance and held managerial accounting positions with responsibility for accounts payable, billing, cash processing and internal reporting for Progressive's Financial Services Group. In 1989, I was employed by Pepsi-Cola as Manager, Financial Services for its Northeast Ohio franchise with responsibility for accounts receivable and credit, route sales auditing and computer operations. From 1993 to 1997, I worked as a CPA for a local firm providing accounting, business consulting and tax services to small businesses. I was hired by The East Ohio Gas Company (now DEO) in December 1997 as Manager, Tax and Accounting Services. In 2001, I joined DEO's Pricing and Regulatory Affairs department. I am currently a member of the Ohio Society of CPAs.

Q3. What are your job responsibilities as Director Regulatory & Pricing?

A3. My present duties include oversight of DEO's regulatory affairs. In overseeing DEO's regulatory affairs, I am responsible for all of its regulatory filings before the Public Utilities Commission of Ohio ("Commission"). I also act as DEO's principal liaison with the Commission and with other regulatory process stakeholders. In order to represent DEO effectively in that role, I interact with all levels of management across a variety of functional areas to understand the commercial, operational and administrative issues facing the Company.

Q4. Have you previously testified before the Commission?

A4. Yes. I testified on behalf of the Company in Case No. 05-474-GA-ATA regarding cost recovery through the Transportation Migration Rider - Part B and Energy Choice program costs under DEO's Phase 1 transition plan. I later testified on behalf of DEO in Case No. 07-829-GA-AIR, *et al*, regarding various schedules supporting the Company's application, including those related to rate base and test year operating income. I also filed testimony in Case No. 09-38-GA-UNC concerning various schedules supporting the establishment of an Automated Meter Reading (AMR) Cost Recovery Charge.

Q5. In your capacity as Director Regulatory & Pricing, are you generally familiar with DEO's books and records?

A5. Yes. I am responsible to prepare and make a variety of regulatory filings that include financial information derived from DEO's financial records, including the general ledger, annual reports, income statements and balance sheets.

Q6. Are you familiar with DEO's Application to adjust its Pipeline Infrastructure Replacement ("PIR") Cost Recovery Charge?

A6. Yes. I supervised and coordinated the collection of the data and assembly of the schedules supporting the PIR Cost Recovery Charge ("PIR Charge"), which were filed as part of DEO's Pre-Filing Notice and Application.

Q7. What is the purpose of your testimony in this proceeding?

A7. The purpose of my testimony is to support the initial adjustment to the PIR Charge filed with DEO's Application in this case.

II. BACKGROUND

Q8. What is the PIR Program?

A8. The PIR Program, approved by the Commission for an initial period of five years in Case No. 08-169-GA-ALT *et al*, facilitates the accelerated replacement, maintenance and repair of aging pipelines and related infrastructure. It also permits DEO to recover the costs associated with replacement, maintenance and repair of such infrastructure. Specifically, through the PIR Charge, DEO seeks to recover incremental costs and a return associated with: (1) replacement of over 4,000 miles of aging bare steel, cast-iron, wrought-iron, copper and ineffectively-coated bare steel pipe; (2) replacement of related main-to-curb connections; (3) installation of new curb-to-meter service lines and the costs associated with maintenance, repair and/or replacement of existing curb-to-meter service lines that are separated from the mainline and must be pressure tested before reconnection, or those that are unsafe or leaky; and (4) certain on-going pipeline infrastructure improvements, including pipeline relocations and system improvements (including those associated with uprating low-pressure systems to higher-pressure systems if inside meters are relocated outside), as well as the associated capital expenditures for main-to-curb connections, service lines, and transmission and distribution pipeline integrity. Moreover, DEO anticipates that it will realize savings in operation and maintenance ("O&M") expenses associated with leak surveillance and repairs and corrosion monitoring and remediation activities and with the elimination of Department of Transportation inspections on inside meters that are relocated outside.

These savings will be credited to amounts that would otherwise be recovered through the PIR Charge.

Q9. Does the PIR Program benefit customers?

A9. Yes. DEO's customers will realize several benefits from the PIR Program including: (i) enhanced service reliability and safety well into the future resulting from the replacement of aging infrastructure; (ii) reduced O&M costs resulting from a lower leak repair rate; and (iii) lower service line costs to the extent that DEO assumes ownership of the service lines because DEO will install and maintain the curb-to-meter service lines that were previously the responsibility of customers.

Q10. Why did DEO propose a PIR Charge?

A10. DEO proposed a PIR Charge to secure the capital funds necessary to address its infrastructure needs within 25 years rather than the approximately 89 years it would otherwise take to complete the pipeline replacements through DEO's normal capital budgeting process. The combination of the 25-year replacement time-frame and a book depreciation rate of 1.79% on the largest portion of the required investment will allow the costs of the program to be spread over a very long period of time, which ensures that customers will not be burdened by substantial annual cost increases.

Q11. What Commission approvals are necessary for DEO to implement a PIR Charge?

A11. DEO's Application to establish an initial adjustment to the PIR Charge is the second part of a two-part process. First, DEO sought Commission approval of an alternative rate plan to recover PIR-related costs, including the deferral of incremental costs to a regulatory asset. The Commission approved this mechanism in its Opinion and Order, dated October 15, 2008 in Case No. 08-169-GA-ALT *et al.* Second, DEO was to file a Pre-

Filing Notice in May 2009 and an Application to establish an initial adjustment to the PIR Charge in August 2009. DEO submitted its Pre-Filing Notice in Case No. 09-458-GA-UNC on May 29, 2009 and its Application on August 28, 2009. Staff is to conduct an investigation of DEO's filing and determine whether the filing might be unjust or unreasonable. If Staff does not find DEO's filing to be unjust or unreasonable and no other party files an objection, the PIR Charge is to be effective in November 2009. If Staff finds DEO's filing may be unjust or unreasonable, or another party that filed for intervention objects and DEO is unable to resolve the objection by October 1, the Commission will schedule an expedited hearing to resolve remaining issues.

III. DEO'S PIR COST RECOVERY CHARGE

Q12. Please describe DEO's PIR Charge by rate schedule.

A12. The PIR Charge by rate schedule, based on the cost of service used in DEO's last rate case, is set forth at Application Exhibit A, Schedule 1 at lines 29-32. The PIR Charges by rate schedule are listed below.

Rate Schedule	PIR Charge
GSS/ECTS	$0.93 per month
LVGSS/LVECTS	$11.14 per month
GTS/TSS	$41.88 per month
DTS	$0.0232 per Mcf, capped at $1,000 per month

These rates were determined by spreading the revenue requirement shown on Schedule 1 at line 27 to rate schedules based on the class cost of service study submitted in DEO's last rate case as shown on Schedule 13. First, the net rate base by type of PIR investment was determined using the data shown on Schedules 2 through 6 and 8, with deferred tax on PISCC determined by multiplying the effective income tax rate of 35% times the PISCC by investment type, which agrees in total to Schedule 7. The return on investment was calculated for each investment type in the same manner shown for total rate base on Schedule 1 at lines 17 and 18. Operating expenses were allocated to each investment type based on total plant in-service for each investment type. The total revenue requirement for each investment type was then allocated to the rate classes using the allocators from DEO's last cost of service study.

The total revenue requirement by rate class for GSS/ECTS, LVGSS/LVECTS, and GTS/TSS was divided by the total number of actual bills issued for each rate class, respectively, for the twelve-month period ended June 30, 2009 from Schedule 14 to arrive at the monthly PIR Charge. The total revenue requirement for the DTS rate class was divided by the total DTS volumes for the 12-month period ended June 30, 2009 from Schedule 14A to arrive at the PIR charge per Mcf.

Q13. Did DEO comply with the rate case Stipulation and Recommendation with regard to the allocation methodology?

A13. Pursuant to the rate case Stipulation and Recommendation (paragraph 5 on page 19), DEO revised its allocation methodology to more precisely identify and allocate the costs associated with investments undertaken in the PIR program. Specifically, DEO expanded the asset category from High Pressure Distribution mainlines to Regulated Distribution mainlines. In doing so, DEO now allocates the cost of investment in MP (medium pressure) and IP (intermediate pressure) mainlines in a manner which appropriately shifts costs away from the GSS/ECTS rate classes.

Q14. Please describe the components used to calculate the PIR Program revenue requirement.

A14. DEO has calculated the PIR Program revenue requirement in a manner consistent with the revenue requirement calculation in a rate case. The formula, shown at Application Exhibit A at Schedule 1 is rate base times rate of return plus operating expenses. Each component of the formula is supported by a schedule or schedules.

Q15. Please identify the rate components and schedules that support the calculation of rate base shown on Application Exhibit A at Schedule 1.

A15. Rate base consists of the following components: Total Plant in Service shown on Schedules 2, 3 and 4; Accumulated Provision for Depreciation shown on Schedule 5, net of Cost of Removal and Retirements shown on Schedules 3 and 4; Post-in-Service Carrying Costs shown on Schedule 6; Net Deferred Taxes on post-in-service carrying costs shown on Schedule 7; and Deferred Taxes on Liberalized Depreciation shown on Schedule 8.

Q16. Please explain the information set forth on Schedules 2, 3 and 4 and how that information is shown on Schedule 1.

A16. Schedule 2 shows the Capital Additions associated with the PIR Program for the 12-month period ending June 30, 2009. These Capital Additions represent capital investments by DEO in pipelines and computer software. As part of DEO's Pre-Filing Notice, Schedule 2 included nine months of actual data and three months of estimated data. DEO updated all of the data to actual Capital Additions on Schedule 2 when it filed its Application on August 28, 2009. Capital Additions from Schedule 2 appear on Schedule 1 at line 3.

Schedule 3 shows the Cost of Removal associated with the PIR Program for the 12-month period ending June 30, 2009. Cost of Removal represents the expense incurred in dismantling and removing an asset from its original location. As part of DEO's Pre-filing Notice, Schedule 3 included nine months of actual data and three months of estimated data. DEO updated all of the data to actual Cost of Removal on Schedule 3 when it filed its Application on August 28, 2009. Cost of Removal from Schedule 3 appears on Schedule 1 at line 4.

Schedule 4 shows the Retirements associated with the PIR Program for the 12-month period ending June 30, 2009. Retirements represent the removal of an asset from service after replacement. As part of DEO's Pre-filing Notice, Schedule 4 included nine months of actual data and three months of estimated data. DEO updated all of the data to actual Retirements on Schedule 4 when it filed its Application on August 28, 2009. Retirements from Schedule 4 appear on Schedule 1 at line 5.

Q17. Please explain the information set forth on Schedule 5 and how that information is shown on Schedule 1.

A17. Schedule 5 shows the Provision for Depreciation associated with the PIR Program for the 12-month period ending June 30, 2009. The accumulated Provision for Depreciation, sometimes known as "Accumulated Depreciation," represents the depreciation expense accumulated during the 12-month period ending June 30, 2009 on the PIR Program Capital Additions shown on Schedule 2. As part of DEO's Pre-Filing Notice, Schedule 5 included nine months of actual data and three months of estimated data. DEO updated all of the data to actual Provision for Depreciation on Schedule 5 when it filed its

Application on August 28, 2009. The accumulated Provision for Depreciation from Schedule 5 appears on Schedule 1 at line 8.

Q18. Please explain the information set forth on Schedules 6, 7 and 8 and how that information is shown on Schedule 1.

A18. Schedule 6 shows the Net Regulatory Asset-Post In-Service Carrying Cost associated with the PIR Program for the 12-month period ending June 30, 2009. Post In-Service Carrying Charges ("PISCC") represent carrying charges calculated at 6.5% on cumulative PIR Capital Additions for which the Commission has authorized cost recovery through the PIR Charge, but for which cost recovery has not yet begun. The 6.5% rate is DEO's cost of short-term debt from the last rate case. The Net Regulatory Asset-PISCC represents accumulated PISCC net of the amortization of PISCC amounts deferred in prior years. As part of DEO's Pre-Filing Notice, Schedule 6 included nine months of actual data and three months of estimated data. DEO updated all of the data to actual Net Regulatory Asset-PISCC on Schedule 6 when it filed its Application on August 28, 2009. Net Regulatory Asset-PISCC from Schedule 6 appears on Schedule 1 at line 13.

Schedule 7 shows the Net Deferred Tax Balance-PISCC associated with the PIR Program for the 12-month period ending June 30, 2009. The Net Deferred Tax Balance-PISCC represents a tax liability resulting from a book vs. tax timing difference associated with the recognition of PISCC on PIR Capital Additions. As part of DEO's Pre-Filing Notice, Schedule 7 included nine months of actual data and three months of estimated data. DEO updated all of the data to actual Net Deferred Tax Balance-PISCC on Schedule 7 when it filed its Application on August 28, 2009. Net Deferred Tax Balance-PISCC from Schedule 7 appears on Schedule 1 at line 14.

Schedule 8 shows Deferred Taxes on Liberalized Depreciation associated with the PIR Program for the 12-month period ending June 30, 2009. The Deferred Taxes on Liberalized Depreciation represent the federal tax associated with the difference between tax depreciation and book depreciation on PIR Capital Additions. As part of DEO's Pre-Filing Notice, Schedule 8 included nine months of actual Capital Additions and three months of estimated Capital Additions as shown on Schedule 2B, which was the basis of the calculation of Deferred Taxes on Liberalized Depreciation. DEO updated all of the data to actual Deferred Taxes on Liberalized Depreciation on Schedule 8, based upon actual Capital Additions set forth on updated Schedule 8A, when it filed its Application on August 28, 2009. Deferred Taxes on Liberalized Depreciation from Schedule 8 appears on Schedule 1 at line 15.

Q19. Please identify the schedule that supports the Approved Pre-Tax Rate of Return that DEO applies to the PIR Program rate base shown on Application Exhibit A at Schedule 1.

A19. Schedule 12 shows the Approved Pre-Tax Rate of Return on Rate Base as determined by the Commission in its December 19, 2008 Entry on Rehearing in Case No. 07-829-GA-AIR *et al.* The Approved Pre-Tax Rate of Return is shown on Schedule 1 at line 17.

Q20. Please identify the rate components and schedules that support the calculation of Operating Expense shown on Application Exhibit A at Schedule 1.

A20. Operating Expense consists of seven rate components: Accumulated Depreciation Expense shown on Schedule 5 and previously discussed; Annualized Depreciation shown on Schedule 9; Annualized Amortization of PISCC shown on Schedule 10; Accumulated Property Tax Expense and Annualized Property Tax Expense shown on Schedule 11; Incremental O&M shown on Schedule 15; and O&M Baseline Savings shown on Schedule 16.

Q21. Please explain the information set forth on Schedule 9 and how that information is shown on Schedule 1.

A21. Schedule 9 sets forth the Annualized Depreciation Associated With Capital Additions for the twelve-month period ending June 30, 2009. The Annualized Depreciation Expense Associated With Capital Additions represents the depreciation expense for the twelve month period ending June 30, 2010 associated with Capital Additions made through June 30, 2009. This expense allows DEO to reduce regulatory lag by matching revenues received through the PIR Charge with depreciation expense being incurred in the same twelve-month period. The Annualized Depreciation Expense Associated With Additions is shown on Schedule 1 at line 21 as Annualized Depreciation on Assets through June 30, 2009.

Q22. Please explain the information set forth on Schedule 10 and how that information is shown on Schedule 1.

A22. Schedule 10 sets forth the Annualized Amortization of PISCC for the twelve-month period ending June 30, 2009. The Annualized Amortization of PISCC represents the amortization during the twelve-month period ending June 30, 2010 of PISCC accumulated during the twelve-month period ended June 30, 2009. This amortization spreads the accumulated PISCC to expense over the lives of the related assets. The Annualized Amortization of PISCC is shown on Schedule 1 at line 22.

Q23. Please explain the information set forth on Schedule 11 and how that information is shown on Schedule 1.

A23. Schedule 11 sets forth the Property Tax Expense Calculation including the Accumulated Property Tax Expense and the Annualized Property Tax Expense on Assets through June 30, 2009. The Accumulated Property Tax Expense represents property tax expense recognized on DEO's books in the period from January 1, 2009 through June 30, 2009 on PIR Capital Additions through December 31, 2008. It includes a half year of 2009 property tax expense because the PIR Charge fiscal year ends June 30, 2009. The Annualized Property Tax Expense represents the property tax expense recognized on DEO's books in the period from July 1, 2009 through December 31, 2009 on PIR Capital Additions through December 31, 2008, plus property tax expense on PIR Capital additions from January 1, 2009 through June 30, 2009, which will be recognized on DEO's books in the first half of 2010. Property tax expense recognized in any calendar year is based on plant assets as of the preceding year end. This expense allows DEO to reduce regulatory lag by matching revenues received through the PIR Charge with property tax expense being incurred in the same twelve-month period. The Accumulated Property Tax Expense is shown on Schedule 1 at line 23. The Annualized Property Tax Expense on Assets through June 30, 2009 is shown on Schedule 1 at line 24.

Q24. Please explain the information set forth on Schedule 15 and how that information is shown on Schedule 1.

A24. Schedule 15 sets forth the Incremental O&M expense identified through the period ending June 30, 2009. Such expense includes company labor and vehicle charges, contractor labor charges and costs for a Web-based service, which would not have been incurred but for the PIR program. The company labor and vehicle charges were incurred for the following activities: data preparation, map generation, project scoping and prioritization, project design, project management, project monitoring and reporting, and monitoring contractor activity. All company labor included in Incremental O&M was directly related to the PIR Program and was not capitalized as part of project management surcharges. The contractor labor included was incurred for the update of maps in DEO's GIS system resulting from the PIR Program. The annual subscription cost for and training on the Web-based service Envista was also included in Incremental O&M. Incremental O&M is shown on Schedule 1 at line 25.

Q25. Please explain the information set forth on Schedule 16 and how that information is shown on Schedule 1.

A25. Schedule 16 sets forth the O&M Baseline Savings for the period ending June 30, 2009. The O&M Baseline Savings represents O&M savings, if any, associated with the PIR Program by measuring the reduction in expenses incurred during the program year for leak surveillance and repair and corrosion monitoring and remediation as compared with the same expenses in a baseline year, which was determined to be the immediately preceding twelve-month period, from July 1, 2007 through June 30, 2008. The O&M Baseline Savings also would include any reduction in costs associated with Department of Transportation inspections on inside meters relocated to outside. Because DEO did not yet have an approved meter relocation plan, there were no such savings related to the movement of meters from inside to outside included in the Application filed on August 28, 2009. The O&M Baseline Savings is shown on Schedule 1 at line 26.

Q26. Are you aware of any objections to the math computations set forth on any of the schedules you have discussed?

A26. No.

Q27. In DEO's PFN Exhibit 6, the maximum PIR Charge for the Daily Transportation Service class is listed as $0.0215 per Mcf. In its Application, DEO indicates that the rate is $0.0232 per Mcf. Please explain the reason for this change.

A27. In preparing the Pre-Filing Notice exhibits, DEO inadvertently overstated the volumes used in calculating the maximum rate for the Daily Transportation Service class. Use of the lower, correct volumes resulted in the slightly higher $0.0232 PIR Charge for that class. This change does not affect the $1,000 per-month cap for that rate class.

Q28. Are you aware of any objection to the calculation methodology for the rate components shown on each schedule?

A28. No.

Q29. As part of the PIR Program, will DEO assume ownership and responsibility for customer owned service lines when such lines are separated from the mainline and a pressure test is required before the line can be returned to service?

A29. Yes.

Q30. Has DEO afforded Staff, OCC and other parties the opportunity for meaningful participation in the development of the PIR Program processes, including the opportunity to review the PIR Charge proposal set forth in DEO's application in Case No. 09-458-GA-UNC?

A30. Yes. DEO invited all parties, including Staff and OCC, to a series of meetings where DEO presented its proposed PIR Program and answered questions. Representatives of

Staff and OCC, respectively, attended each meeting. In addition, Staff performed an investigation that included numerous data requests served upon DEO, which responded to each request. Similarly, OCC served DEO with substantial discovery and DEO responded to each such inquiry.

Q31. Does this conclude your testimony?

A31. Yes.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was sent by electronic mail to the following parties on this 28th day of August, 2009.

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